

BUILDING ON OUR ECONOMIC AND FISCAL PROGRESS

A Record of Job Growth and Economic Expansion

When the President took office in January 2009, he faced an economy shrinking at its fastest rate in over 50 years. Nearly 800,000 Americans lost their jobs in that month alone. The President and the entire Administration acted quickly to jumpstart the economy and create jobs through the Recovery Act; rescue the auto industry from near collapse; fight for passage of the Affordable Care Act (ACA) to provide quality, affordable insurance coverage to millions of Americans and help slow the growth of health care costs; and secure the Dodd-Frank Wall Street Reform and Consumer Protection Act to help prevent future financial crises.

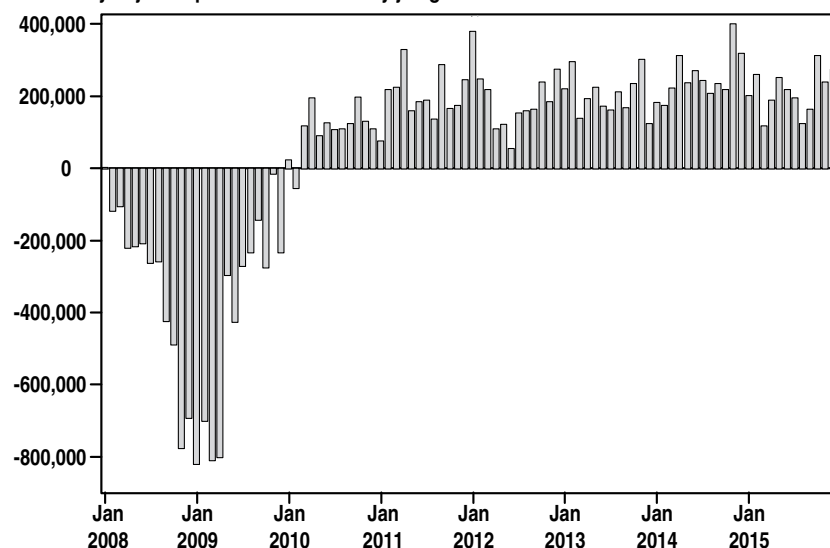
Under the President's leadership, the U.S. economy has become an engine of job growth and

economic expansion, outpacing other advanced economies in recovery from the Great Recession. In 2015, the U.S. economy achieved a number of significant milestones. American businesses extended their record streak of consecutive months of job growth, adding more than 14 million new jobs over the past 70 months. The two-year period ending December 2015 marked the strongest two years of job creation since 2000. Significantly, all of the net employment gains since early 2010 have been in full-time positions.

Since October 2009, the unemployment rate has been cut in half, declining 0.6 percentage points in 2015 and falling below its pre-recession average. Unemployment has fallen five percentage points since its peak in early 2010, much faster than forecasted. Long-term unemployment has fallen by 70 percent from its peak,

More than 14 Million Jobs Added Over the Past 70 Months

Seasonally-adjusted private sector monthly job gain/loss



Source: Bureau of Labor Statistics

declining at a faster rate than overall unemployment and reaching its lowest rate since 2008. While there is more work to do to boost wages as the economy continues to grow, there are encouraging signs that earnings are on the rise.

The manufacturing sector has made major gains over the course of the economic recovery. Since February 2010, the economy has added 878,000 new manufacturing jobs—the first sustained job growth in the sector since the 1990s.

The economy is not only recovering, it is evolving. The President has made the largest investments in clean energy in American history, and America is less reliant on foreign oil than at any point in the previous four decades. Wind production now provides clean electricity to power 17 million homes and supports tens of thousands of jobs across the Nation. Solar electricity generation has increased thirty-fold since 2008, and the solar industry is creating jobs 12 times faster than the rest of the economy.

American families are benefiting from a growing economy. Rising home prices have restored more than \$6 trillion in home equity, while the

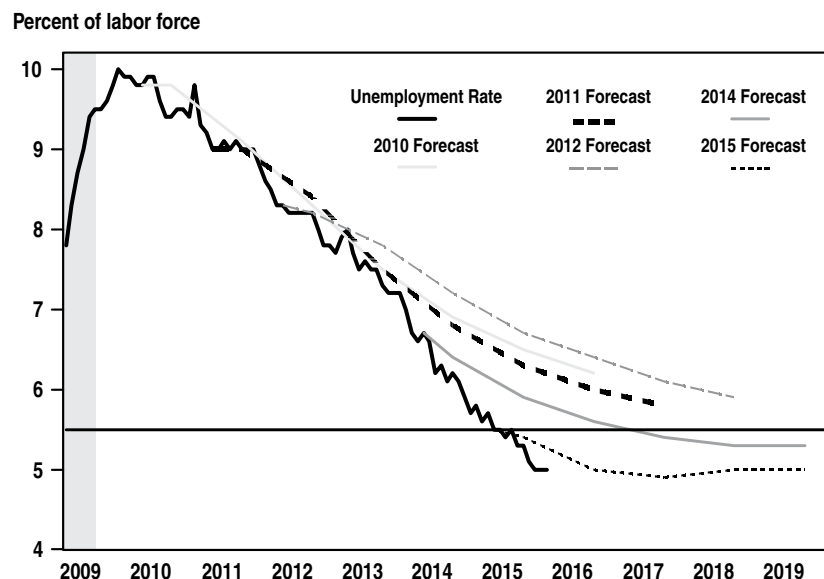
number of seriously delinquent mortgages has reached an eight-year low. Under the Affordable Care Act (ACA), health care prices have risen at the slowest pace in 50 years, while the rate of uninsured Americans has dropped to the lowest level on record. In addition, the strong job market and safety net enhancements have made a dent in poverty. While child poverty remains too high, Census data show the past two years have seen the fastest decline in child poverty since 2000.

The United States right now has the strongest, most durable economy in the world. The determination and resilience of the American people, coupled with the President's decisive actions during the financial crisis, brought the economy back from the brink.

Reflecting on Our Fiscal Progress

Even as the Administration made critical investments to jumpstart the economy, it also succeeded in putting the Nation on a sound fiscal path. Since 2009, under the President's leadership, Federal deficits have fallen by nearly three-quarters—the most rapid sustained deficit

Unemployment Rate has Fallen Faster than Forecasted



Note: Annual forecasts are current as of March of the stated year. Shading denotes recession.

Source: Blue Chip Economic Indicators; Bureau of Labor Statistics, Current Population Survey

reduction since just after World War II. The annual deficit in 2015 fell to 2.5 percent of the Gross Domestic Product (GDP), the lowest level since 2007, and well below the average of the last 40 years. Over the past six years, actual and projected deficits have fallen due to three main factors.

First, economic growth has helped accelerate the pace of deficit reduction. Growth in recent years has increased revenues and reduced spending on “automatic stabilizer” programs, such as unemployment insurance, that automatically increase during economic downturns.

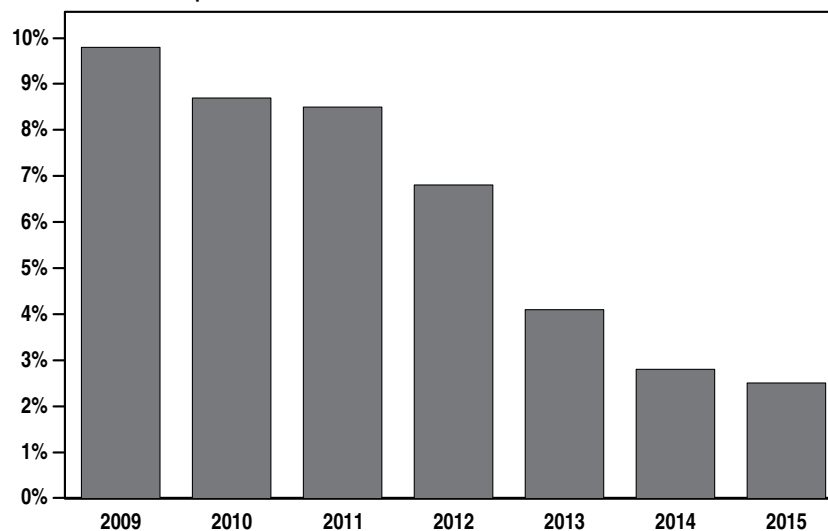
Second, since 2010, the President has worked on a bipartisan basis to put in place deficit reduction measures totaling \$3.8 trillion from 2017 through 2026, not counting the hundreds of billions of dollars in additional savings achieved by winding down wars in Iraq and Afghanistan. These measures include restoring Clinton-era tax rates on the highest-income Americans. These restored rates in combination with other tax policies enacted under the President’s leadership, have led to the top 0.1 percent of families contributing more than \$500,000 in additional taxes each year on average, according to a Department of the Treasury analysis. At the

same time, tax cuts have increased the after-tax incomes of working families of modest means. Discretionary spending restraint has also played a role in deficit reduction, but sequestration cuts have contributed only a minority of the discretionary savings achieved since 2010, while shortchanging investment and cutting critical services.

Finally, deficits have fallen due to exceptionally slow health care cost growth. When the President took office, he immediately identified health care costs as one of the major drivers of the Nation’s long-term fiscal challenges. In his Address to a Joint Session of the Congress in February 2009, he called for health reform as “a step we must take if we hope to bring down our deficit in the years to come.” In the months that followed, the President fought to enact comprehensive health care reform even as the Administration took aggressive actions to bolster the economy and help Americans get back to work. Central to the ACA, which was signed into law in 2010, were a series of reforms designed to rein in health care cost growth by reducing excessive payments to private insurers and health care providers in Medicare, developing and deploying new payment models that reward high-quality efficient care, and implementing an

2009-2015 was the Fastest Period of Sustained Deficit Reduction Since WWII

Annual deficits as a percent of GDP



excise tax on the most costly health plans in the employer market. These reforms together create strong incentives for efficient and effective coverage, and have moved us toward paying for value, rather than volume, in health care services.

In the years since 2010, we have seen prolonged slow growth in per-beneficiary health care spending in both private insurance and public programs. In 2014, in both Medicare and private health insurance, per-enrollee spending grew by less than one-third the rate seen over the preceding decade, adjusting for inflation. While some of the slowdown can be attributed to the Great Recession and its aftermath, there is increasing evidence that much of it is the result of structural changes, including the reforms enacted in the ACA.

The health care cost slowdown is already yielding substantial fiscal dividends. Compared with the 2011 Mid-Session Review, aggregate projected Federal health care spending for 2020 has decreased by \$185 billion based on current budget estimates, savings above and beyond the deficit reduction directly attributed to the ACA when it was passed.

Helping, Not Hurting, the Economy: The Bipartisan Budget Act of 2015

Sustained economic growth is a necessary pillar of fiscal health. As the American people work to continue our economic and fiscal progress, it is critical that the Federal Government support, rather than impede, economic growth. That means ending the harmful spending cuts known as sequestration, which limit the ability to invest in the building blocks of long-term economic growth, like research and development (R&D), infrastructure, job training, and education.

Early in the Administration, the President and the Congress worked together to enact measures to stabilize and restore growth to a faltering economy and to rebuild it on a stronger foundation for the long run. In addition to the Recovery Act, the ACA, and the Dodd-Frank Wall

Street Reform and Consumer Protection Act, the Congress took bipartisan action in 2010 on a number of temporary measures to jumpstart the recovery.

Unfortunately, policies adopted in subsequent years hurt, rather than helped, the economy. Sequestration cuts that were never intended to take effect were implemented in March 2013, reducing GDP by 0.6 percentage points and costing 750,000 jobs, according to the Congressional Budget Office (CBO). In 2011, and again in 2013, congressional Republicans sought to use the Nation's full faith and credit as a bargaining chip, driving down consumer confidence and driving up uncertainty. The Federal Government shutdown in October 2013 created further uncertainty and reduced growth in the fourth quarter of 2013 by 0.3 percentage points.

Following the Government shutdown, policymakers started to move away from manufactured crises and austerity budgeting, helping to lay the groundwork for job market gains and stronger growth. The President worked with the Congress to secure a two-year budget agreement (the Bipartisan Budget Act of 2013) that replaced a portion of the harmful sequestration cuts and allowed for higher investment levels in 2014 and 2015. The Council of Economic Advisers estimated that the 2013 budget deal would create about 350,000 jobs over the course of 2014 and 2015, so it likely made a significant contribution to the improvement in the labor market over the past two years.

With harmful sequestration cuts scheduled to return in full in 2016, the President made clear that he would not accept a budget that locks in these short-sighted cuts and that the Congress would again have to take action to address them. The President's 2016 Budget laid out a path to do so: it replaced the sequestration cuts with smart reforms in areas like health care that would improve quality while controlling health care cost growth. It also proposed critical investments in economic growth and opportunity that could only be made by lifting sequestration.

In October 2015, the President worked with congressional leaders from both parties to secure another two-year budget agreement (the Bipartisan Budget Act of 2015 or BBA) that will create an estimated 340,000 jobs in 2016 alone, while supporting middle-class families, investing in long-term growth, protecting Social Security, and safeguarding national security. The BBA provided roughly 75 percent more sequestration relief over two years than the budget agreement reached in 2013, including nearly 90 percent of the discretionary sequestration relief the President requested in 2016. The sequestration relief was fully paid for, and employed a number of reforms the President put forward in the Budget. The BBA also included critically important provisions to bolster the financing of the Social Security Disability Insurance Program (SSDI), ensuring that the program can continue to provide workers with serious disabilities and their families the full benefits they have earned. Without congressional action, SSDI would have run short of funds in December 2016, resulting in large benefit cuts.

Some private forecasters have estimated that the measures in this agreement will lead to the first year with a net positive contribution from Federal fiscal policy to GDP growth since 2010. The agreement ended yet another period of brinksmanship and uncertainty and put us on a path to avoid more manufactured crises in the months ahead.

Because of the sequestration relief secured in the BBA, the President and congressional leaders were able to come together to invest in many of the key priorities from the President's 2016 Budget that will help the economy and middle-class families, including:

- *Job Training.* A \$90 million landmark new effort to expand apprenticeships, creating more opportunities for hard-working Americans to acquire the skills they need to succeed in good jobs that are available now.
- *Research.* A seven percent increase in National Institutes of Health funding between 2015 and 2016 will go toward critical research priorities like Alzheimer's disease, addressing antibiotic resistance, cancer, and the Precision Medicine Initiative.
- *Early Learning.* A six percent increase in Head Start funding, including a new, nearly \$300 million investment, to increase the number of Head Start programs that provide a full school day and a full school year, which research shows promotes better outcomes for children.
- *Clean Energy.* An eight percent increase in funding between 2015 and 2016 for clean energy projects supported by the Department of Energy's Office of Energy Efficiency and Renewable Energy in cooperation with industry, universities, and the national labs.
- *Advanced Manufacturing.* Resources for new manufacturing innovation institutes building toward the President's goal of 15 institutes by the end of his term, representing over \$225 million of additional and continuing investments in 2016. Each of these manufacturing institutes brings together leading companies, universities, and non-profits to co-invest in the development of game-changing manufacturing technologies that make the U.S. more competitive for manufacturing jobs and investment.

The President and the Congress have now come together twice to avoid harmful sequestration cuts, replacing the savings with a smarter mix of revenues and spending reforms, and investing equally in the economy and national security. These actions further highlight that the President's proposal to fully offset the cost of ending sequestration is consistent with his vision to make necessary investments to support economic growth and opportunity, and to put the Nation on a more fiscally sustainable path.

Providing sequestration relief and investing in the economy through the BBA and subsequent year-end 2016 budget legislation (the 2016 Consolidated Appropriations Act or 2016 Omnibus) were only a part of the bipartisan budget-related accomplishments in 2015. In

April, the Congress passed legislation that permanently reforms the Medicare physician payment system and extends the critical Children's Health Insurance Program, which provides coverage to millions of American children. Nearly every year, for the past 13 years, physicians have faced the possibility of cuts in their payments from Medicare unless the Congress passed a so-called "doc fix." The 2016 Budget called for putting a permanent end to this annual crisis and reforming Medicare physician payments to promote high-quality efficient care. The enacted legislation achieved these aims, providing certainty for physicians and preserving patient access to care, while also encouraging delivery system reforms designed to improve quality and improve the sustainability of the Medicare program over the long term.

Also, as part of the 2016 Omnibus, the Congress reached a bipartisan agreement on expiring tax provisions that will extend critical tax relief to working families, incentivize private-sector innovation through support for R&D, and simplify and cut taxes for small businesses while putting dozens of corporate tax breaks on a real path to expiration. The legislation signed into law by President Obama permanently extends Recovery Act expansions of the Child Tax Credit and Earned Income Tax Credit that were scheduled to expire after 2017, which will provide a tax cut of about \$900 on average for millions of working families a year. If the expansions had been allowed to expire, more than 16 million people—including eight million children—would have fallen into, or deeper into, poverty in 2018. The agreement also makes permanent the President's American Opportunity Tax Credit, first enacted in the Recovery Act, which helps families afford college with up to \$10,000 in tax credits for tuition, fees, and books over four years. In addition, the agreement extends for five years wind and solar tax credits, boosting investments in these energies, which will significantly reduce carbon dioxide emissions. However, the tax agreement did not offset the cost of the business tax breaks it contained and did not take necessary steps to reform the

business tax system. As the President has proposed, the Congress should pass business tax reform that closes loopholes, makes the tax system fairer, and pays for these tax cuts.

Building on Our Success for a Stronger Economy

The BBA provides a critical increase in discretionary funding for 2016 and 2017, including nearly two-thirds of the sequestration relief for 2017 that the President called for in the 2016 Budget. The 2017 Budget builds on the achievements secured for 2016 and adheres to the agreement's discretionary funding levels. Still, not fully replacing sequestration in 2017 has consequences, including hindering the ability to make needed investments that are critical to building durable economic growth in the future and maintaining America's edge as the leader in innovation and cutting-edge science.

For that reason, the Budget includes a series of investments using mandatory funding that will help maintain preeminence in science and engineering, support jobs and economic growth, expand opportunity, and ensure that we continue to demonstrate economic leadership for decades to come.

These critical investments include a range of R&D efforts, from basic science research in the physical, environmental, and agricultural sciences, to launching a cancer "moonshot" through investments in biomedical research, to supporting earth science, space science, aeronautics, and exploration missions at the National Aeronautics and Space Administration—all with the potential to fundamentally change what America is capable of achieving.

The investments also support early learning, which provides a strong foundation for children's future success in school and in life, including the President's Preschool for All initiative to ensure four-year-olds across the Nation have access to high-quality preschool programs. They also fund a historic investment to ensure that all low- and moderate-income families with young children

have access to high-quality child care that supports children's development and helps parents work.

In addition, the investments fund computer science opportunities for K-12 students, strengthen community colleges, which expand students' opportunities to pursue the knowledge and skills they need for well-paying jobs, and criminal justice reform, to break the cycle of poverty and incarceration that traps too many Americans and ultimately detracts from communities, the workforce, and economic growth. These investments also support expanded access to treatment for opioid use disorders, with a goal of ensuring that all who seek treatment can access it by the end of 2018; and funding to help more Americans receive needed mental health care, especially for serious mental illnesses.

These investments also build on the success in sharply reducing veteran homelessness and set a path for ending homelessness among all of America's families; they enable partnerships with State and local governments to help families get through a financial crisis and remain self-sufficient and thrive. The investments fund a robust effort to enhance national and economic security through an intensive effort to strengthen cybersecurity across the Federal Government.

The Budget also recognizes that without further congressional action, sequestration will return in full in 2018, threatening the economy. That is why the Budget once again proposes to end sequestration and replace the savings by cutting inefficient spending and closing tax loopholes. Reversing sequestration would allow domestic and security investments needed to help move the Nation forward. These include investments to strengthen the economy and drive growth and opportunity by improving the education and skills of the U.S. workforce, accelerating scientific discovery, and creating jobs through pro-work, pro-family initiatives. Ending sequestration is also necessary to address critical national security priorities and fund national defense in a fiscally responsible manner. Ending this destructive policy would enable the United

States to maintain military readiness, advance badly-needed technological modernization, and provide the support that our men and women in uniform deserve.

Investing in Economic Growth While Maintaining Fiscal Responsibility

The Budget shows that investments in growth and opportunity are compatible with putting the Nation's finances on a strong and sustainable path. The Budget ends sequestration and makes critical investments while still addressing long-term fiscal challenges. It keeps deficits below three percent of GDP while stabilizing debt and putting it on a declining path through 2025—key measures of fiscal progress.

The Budget accomplishes these goals by more than paying for all new investments, achieving \$2.9 trillion of deficit reduction over 10 years, primarily from health, tax, and immigration reforms. The Budget includes roughly \$375 billion of health savings that grow over time, described further in Chapter 3, Meeting Our Greatest Challenges: Opportunity for All, and builds on the ACA with further incentives to improve quality and control health care cost growth.

The Budget also includes smart tax reforms that promote growth and opportunity, while strengthening tax policies that help middle-class families afford child care, higher education, and a secure retirement, also described further in Chapter 3. It achieves \$955 billion in deficit reduction from curbing inefficient tax breaks for the wealthy and closing loopholes for high-income households, helping to bring in sufficient revenues to make vital investments while also helping to meet promises made to seniors. Changes in health and tax policies would help extend the life of the Medicare Hospital Insurance Trust Fund by over 15 years.

The Budget reflects the President's support for commonsense, comprehensive immigration reform along the lines of the 2013 bipartisan Senate-passed bill. CBO has estimated that comprehensive immigration reform along the

lines of the Senate-passed bill would reduce the deficit by about \$170 billion over 10 years and by almost \$1 trillion over two decades. Immigration reform is a pro-growth policy that helps to directly address key fiscal challenges by helping to balance out an aging population, increase labor force participation, and raise productivity. The Social Security Actuary estimated that immigration reform would reduce Social Security's 75-year shortfall by eight percent.

The Budget also shows that responsible deficit reduction can be achieved without cuts in critical aid to poor Americans and without undermining commitments to seniors and workers. The

Budget puts us on sound fiscal footing even as it modernizes benefits for workers, invests in evidence-based efforts to reduce poverty and promote opportunity, and protects Social Security and Medicare.

Under the President's leadership, there has been remarkable economic and fiscal progress, showing what is possible when strategic investment to grow the economy is paired with smart reforms that address the true drivers of long-term fiscal challenges. The Budget continues that approach, investing in America's future and laying out a path to address the Nation's greatest challenges.